

# **SOUTH AFRICAN CHAMBER OF COMMERCE AND INDUSTRY**

Business Confidence Index

January 2017



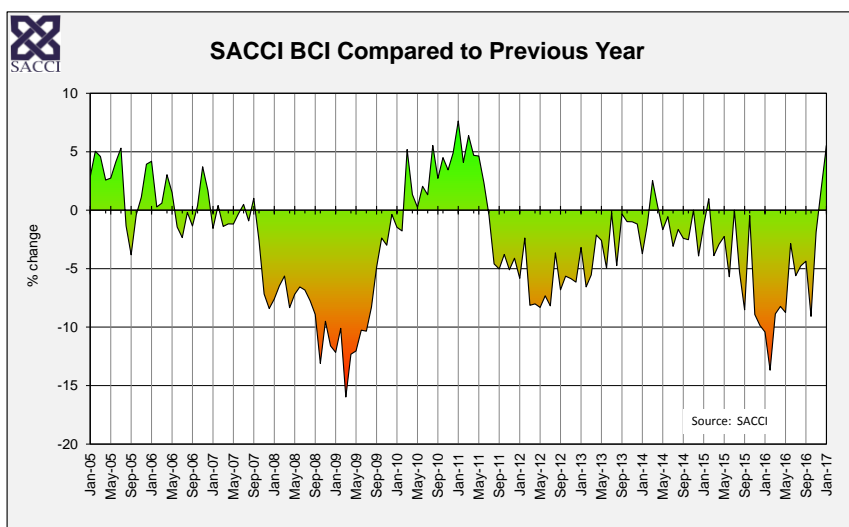
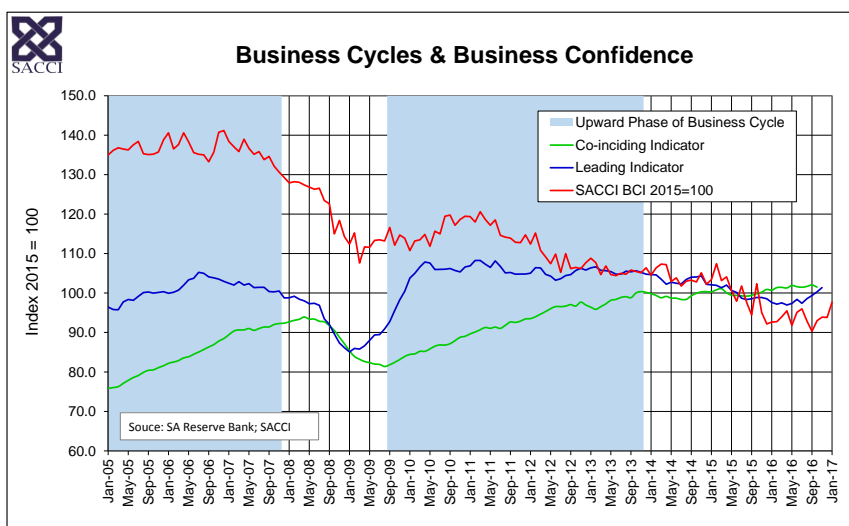
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*Because of information lags and changes in expectations, the dynamics of the business mood, at times, may be at variance with the economic environment. As a result, always read the BCI with other economic data and the accompanying economic commentary. For notes on the BCI, see the SACCI website at [www.sacci.org.za](http://www.sacci.org.za).*

## The SACCI Business Confidence Index 2015=100

Month	2010	2011	2012	2013	2014	2015	2016	2017
January	110.8	119.4	112.4	108.8	104.5	103.4	92.6	97.7
February	113.2	118.0	115.2	107.7	106.4	107.4	92.7	
March	113.5	120.6	110.8	104.7	107.3	103.2	94.0	
April	114.8	118.7	109.2	106.9	107.2	104.1	95.5	
May	111.8	117.2	107.4	104.7	102.9	100.6	91.8	
June	115.7	118.5	109.9	104.4	103.8	97.9	95.1	
July	115.0	114.6	105.2	105.0	101.8	101.8	96.0	
August	119.5	114.2	110.0	104.8	103.0	97.6	92.9	
September	119.8	113.9	106.2	105.8	103.3	94.5	90.3	
October	117.2	112.9	106.5	105.5	102.8	102.3	93.0	
November	118.7	112.8	106.2	105.1	105.1	95.1	93.9	
December	119.5	114.7	107.7	106.4	102.2	92.2	93.8	
Average	115.8	116.3	108.9	105.8	104.2	100.0	93.5	



## This Month's BCI Results

January 2017 saw the largest positive month-on-month (m/m) change in the **SACCI** BCI - 3.9 index points - since the m/m change in February 2015 -4.1 index points. It was also the biggest positive year-on-year difference (5.1 index points) of the **SACCI** Business Confidence Index (BCI) since May 2011 - 5.3 index points.

The SACCI BCI registered 97.7 index points in January 2017 compared to 93.8 in December 2016 and 92.6 in January 2016. This is not only a reversal of the severe year-on-year decline of December 2015 of 10 index points, but it is the second consecutive month of improving on the year earlier.

This may establish renewed momentum in the BCI given that 2016 was an erratic year for business confidence. After the BCI recovered reasonably well up to July 2016 and reached 96.0, it tapered down to a low of 90.3 in September 2016. Towards the end of 2016, the BCI steadied and improved to around 93 towards year-end.

The recovery of the BCI in October, November and December 2016 and the acceleration in January 2017 indicate a normalisation of the business climate in South Africa despite uncertain local and global economic and political conditions. Certainty in the domestic environment surrounding the political, economic and policy positions will enhance economic prospects and entrench the present improved business confidence level.

Noticeably more BCI sub-indices were positive month-on-month (m/m) in January 2017 than in December 2016. Only three of the thirteen sub-indices made negative m/m contributions to the BCI in January 2017. Eight sub-indices were positive m/m and two remained unchanged. Positive monthly contributions to the BCI mainly came from recovering new vehicle sales, better real retail sales, more merchandise export volumes and the stronger rand exchange rate. Noticeable month-on-month negative impacts on the BCI came from less merchandise import volumes, lower real value of building plans passed and higher than expected inflation.

The year-on-year (y/y) comparison for January 2017 indicates a slightly more relaxed business climate than was evident in December 2016. Four of the thirteen sub-indices improved on a year ago while three remained virtually unchanged. This is an improvement on December 2016 when only three sub-indices showed positive y/y movements. Apart from the rand exchange rate, the increased value of building plans passed the higher gold and platinum price, and a larger number of new vehicle sales, also contributed to the BCI in January 2017. The JSE returned to about the same cyclical level as in January 2016 after being on the defensive during 2016.

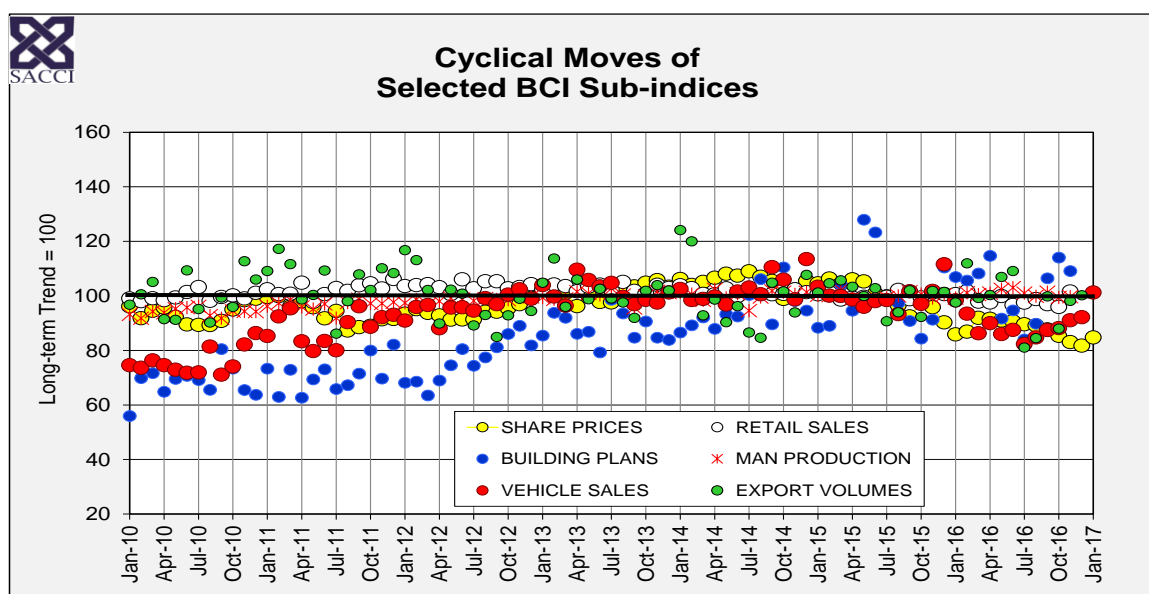
The largest negative real economic y/y contributors to the BCI were less merchandise import volumes, higher real interest rates, less real credit extended and higher inflation.

## Impact of the BCI Sub-indices on the BCI

BUSINESS CLIMATE INDICATORS *	m/m Changes		y/y Changes	
	This Month	Previous Month	This Month	Previous Month
Energy Supply	O	-	-	-
Manufacturing	O	-	O	-
Exports	+	+	-	-
Imports	-	+	-	-
Vehicle sales	+	+	+	-
Retail sales	+	-	O	-
Construction - buildings	-	+	+	+
Inflation <sup>1</sup>	-	O	-	-
Share prices	+	-	O	-
Real private sector borrowing	+	-	-	-
Real financing cost	+	O	-	-
Precious metal prices	+	-	+	+
Rand exchange rate	+	+	+	+

\* See notes on BCI on [www.sacci.org.za](http://www.sacci.org.za)

1. Excludes petrol, food and non-alcoholic beverages.



## Economic Commentary

### *A Normalised Business Climate?*

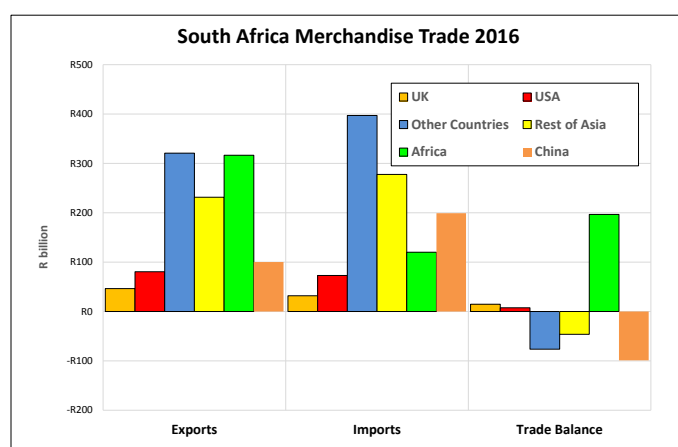
After experiencing a challenging and turbulent year in 2016, the SACCI Business Confidence Index suggests an improved business climate after more normalised socio-political conditions prevailed towards the end of last year and the start to 2017. If these conditions could continue to carry the day, then the momentum gained in business confidence could accelerate and create the necessary investment and economic growth atmosphere.

The structural economic challenges for South Africa could become easier to resolve and create the about-turn of the economy if current trends and conditions continue. This will imply strict adherence to the conditions needed for enhancing an economic growth strategy and the ills listed by the credit rating agencies. Any deviation or obstructing the efforts to achieve the necessary economic adjustments could have serious economic and unintended undesirable causal consequences.

### *Global Trade Relations and Developments*

Probably the most uncertain base-line scenario at present is how the political developments in the USA and the UK might affect the world economy and global economic relations. South Africa with an economy in dire need of foreign capital and largely open to international trade will have to ensure and prepare for a changing global economic environment and economic relations.

South Africa's largest merchandise export market in 2016 was Africa (28.9%) followed by Asia (excl. China) with 21.1% and all the other countries at 50% of merchandise exports. China (9.1%), USA (7.4%) and the UK (4.2%), were amongst the larger single country export destinations.



Most of the merchandise import penetration into South Africa in 2016 came from Asia (excl. China) at 25.3%, followed by China 18.1%, Africa 10.9%, the USA 6.7%, the UK 2.9% while merchandise imports from other countries was 36.1%.

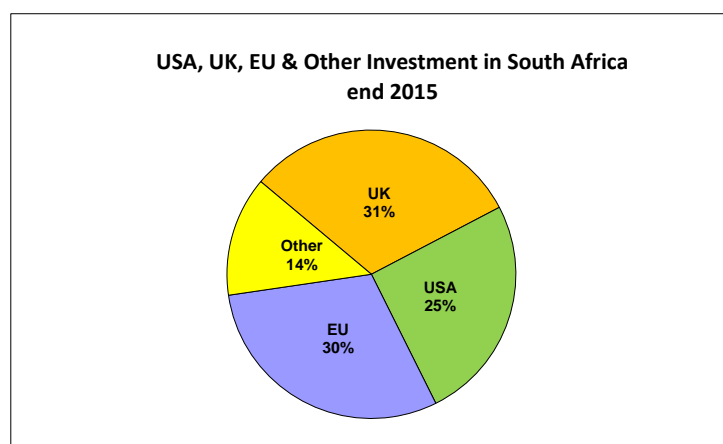
In 2016 a trade surplus was recorded with Africa (R196 billion), the UK (R15 billion) and the USA (R8 billion). The trade deficit with China (R99 billion), rest of Asia (R47 billion) and all other countries (R76 billion) in total amounted to R222 billion in 2016. The trade deficit in amounted to R2.9 billion in 2016 – down from R52.2 billion in 2015. This is one of the reasons for the stronger rand towards year-end in 2016.

The concept of Free-and-Fair-Trade propagated by the new administration in the USA might change the rules and regulations inherent to international trade. This may not only affect production processes and the regulatory environment in participating countries, but may ultimately effect exchange rates, customs and excise tariff structures, and the policy and regulatory environments in trading partners.

### *Foreign Capital Flows*

Although South Africa's foreign trade of merchandise and services attach greater importance to newly established markets in Asia and Africa, foreign capital flows from Europe and the USA still play an prominent (86%) role in foreign financing. Although trade relations are important to South Africa, the dire need for foreign capital from established sources will remain important for future growth and prosperity in South Africa. It is in this context that the credit ratings agencies' assessment of South Africa remains pivotal for economic growth and creating more opportunities for the growing population.

Changing global economic relations and the alternative approach to global relationships by the USA and UK governments will not only cause changing relationships with these two countries, but will also change a whole array of other foreign relationships. The outcome of these changes is going to affect South Africa to a degree that is difficult to predict. It appears that South Africa is not of strategic economic importance for either the USA or the UK although established relationships are expected to be preserved.



### *Some Positive Domestic Economic Developments*

It appears that the more stable economic and business climate that came about towards

the end of 2016, continued into January 2017. In the short-term (m/m) there were cyclical movements of activities closer or above the longer term trend while the financial indicators in general were more relaxed – see chart on page 4. On a y/y basis, the business climate is moving closer to last year's cyclical level though there are activities and financial variables that need improvement in support of business confidence.

Indicators that still place a notable drag on business confidence are merchandise import volumes (inconsistent), inflation excluding food, non-alcoholic beverages and petrol, energy costs, and real financing costs/interest rates. The real value of building plans passed, US dollar precious metal prices and the investment and trade weighted rand exchange rate are major positive contributors in advancing business confidence.

The table below shows the business climate indicators' short-term (m/m) and medium-term (y/y) movements.

Stance of Business Climate Indicators				
Indicators - Indices 2015 = 100	Previous Month	Latest Month $\phi$	Year Ago	Year ago % difference
Energy Supply	94.6	93.0	97.4	-4.5
Manufacturing Output	99.4	99.7	99.3	+0.4
Merchandise Export Volumes	98.2	100.2	101.5	-1.3
Merchandise Import Volumes	102.7	98.1	115.3	-14.9
Number of New Vehicles Sold	92.2	101.3	98.3	+3.1
Real Value of Building Plans Passed	114.1	109.1	91.3	+19.5
Real Retail Sales	95.9	101.6	101.3	+0.3
Inflation excluding food, non-alcoholic beverages and petrol	97.6	95.9	101.8	-5.8
JSE All-share Index	81.8	84.7	85.9	-1.3
Real Private Sector Borrowing	95.9	96.3	101.3	-4.9
Real Predominant Overdraft Rate	79.6	81.4	89.1	-8.6
US dollar Precious Metal Prices	93.4	97.6	87.8	+11.2
Investment and Trade Weighted Rand Exchange Rate	98.8	100.7	79.6	+26.5

Notes:  $\phi$  Change on year earlier.

## Conclusion

It is quite apparent that business confidence has gained momentum based on positive expectations that the business and economic environment will be normalised, as was the case towards the end of 2016 / start of 2017. It also indicates business readiness to promote economic activity in South Africa complementary to actions of the public sector.

It is imperative that South Africa stay abreast and adopt to international and global changes that stand to impact on South Africa and the business community.

## General Economic Indicators

Indicator	Period	Direction	Latest	Previous	2016	2011
Consumer inflation headline urban (%)	Dec-16	▲	6.8	6.6	6.3	5.0
Consumer inflation urban - excl. food, bev. & fuel (%)	Dec-16	▲	5.9	5.8	5.8	4.0
Money supply M3 eop (% Δ Y-o-Y)	Dec-16	▲	6.1	4.8	6.1	8.3
Private sector credit eop (% Δ Y-o-Y)	Dec-16	▲	5.1	4.6	5.1	6.2
Real prime overdraft rate eop (%)*	Dec-16	▶	4.4	4.4	4.4	4.8
Prime overdraft rate eop (%)	Jan-17	▶	10.50	10.50	10.50	9.00
Liquidations number sa	Dec-16	▼	138	163	161	297
Bond yield 5-10y govt eop (%)	Jan-17	▼	8.49	8.65	8.65	8.01
R / US\$ average	Jan-17	▼	13.56	13.82	14.70	7.25
R / Euro average	Jan-17	▼	14.42	14.59	16.28	10.08
Indicator	Date	Direction	Latest	Previous	2015	2010
Income & wealth tax / GDP (%) saar	q3-16	▼	14.2	16.7	15.1	14.2
Total tax / GDP (%) saar	q3-16	▼	27.1	29.7	28.1	25.4
Public sector borrowing requirement / GDP (%)	q3-16	▲	6.5	5.4	5.0	5.0
Public sector expenditure / GDP (%)	q3-16	▶	28.3	28.3	28.3	27.1
Budget Balance / GDP (%)	q3-16	▲	-8.7	-2.8	-4.5	-4.6
Imports / GDE (%)	q3-16	▼	30.0	31.4	31.4	27.7
Exports / GDP (%)	q3-16	▼	29.6	32.1	30.7	28.6
Net foreign investment flows / GDP (%)	q3-16	▲	2.5	2.2	0.4	3.8
Current account balance / GDP (%)	q3-16	▲	-5.0	-1.8	-4.3	-1.5
Gross domestic saving / GDP (%) saar	q3-16	▼	16.4	16.7	16.4	18.0
Gross capital formation / GDP (%) saar	q3-16	▲	20.5	19.6	20.7	19.5
Net fixed capital formation / GDP (%)	q3-16	▲	-	-	6.6	6.1
GDP growth (% Δ Y-o-Y)	q3-16	▶	0.7	0.7	1.3	3.0

Notes: Δ=change; eop=end of period; Y-o-Y=year-on-year; q=quarter; saar=seasonal adjusted annual rate; GDP=Gross Domestic Product; GDE=Gross Domestic Expenditure; sa=seasonally adjusted. \*Deflated by inflation excluding .food, beverages and fuel.